

WEST CARROLL WATER DISTRICT
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS

At December 31, 2014 and 2013

**WEST CARROLL WATER DISTRICT
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY INFORMATION
AND INDEPENDENT AUDITOR'S REPORTS**

Years Ended December 31, 2014 and 2013

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INDEPENDENT AUDITOR'S REPORT

To the Commissioners of the
West Carroll Water District
Carrollton, Kentucky 41008

Report on the Financial Statements

We have audited the accompanying financial statements of West Carroll Water District as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the West Carroll Water District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the West Carroll Water District, as of December 31, 2014 and 2013, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2015, on our consideration of the West Carroll Water District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering West Carroll Water District's internal control over financial reporting and compliance.

Raisor, Zapp & Woods, PSC

RAISOR, ZAPP & WOODS, PSC
Certified Public Accountants
Carrollton, Kentucky

March 27, 2015

**WEST CARROLL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014**

Our discussion and analysis of the West Carroll Water District's financial performance provides an overview of the District's financial activities for the year ended December 31, 2014. Please read it in conjunction with the District's financial statements, which begin on page 6.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the District report information about the District's use of accounting methods which are similar to those used by private sector companies. These statements offer short and long-term financial information about its activities.

The balance sheet includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to District creditors (liabilities). It also provides the basis for evaluating the capital of the District and assessing its liquidity and financial flexibility.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net position. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its water rates and other fees.

The final required financial statement is its statement of cash flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reported period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities, and the change in cash during the reporting period.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the District's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

FINANCIAL HIGHLIGHTS

The following are key financial highlights:

- Total assets at year-end were \$3,364,313 and exceeded liabilities of \$1,316,003 by \$2,048,310 (i.e. net position). Of the total net position, \$194,392 was unrestricted and available to support short-term operations. Total net position increased from year end 2013 to 2014 in the amount of \$248,342.
- Operating revenues increased by \$34,772 from 2013.
- Total operating expenses increased by \$37,166, due primarily to an increase in the amount paid to Carrollton Utilities for its annual maintenance contract and increased depreciation expense due to additional assets added to the system.
- The District was in compliance with all debt covenants.

Balance Sheet, Statement of Net Position

Utility Plant increased by \$370,420 in 2014 reflecting the additional of assets from construction completed on the Underserved Project. (See diagram below.) Current assets decreased \$9,459 representing a decrease in cash and accounts receivable. Other non-current assets increased \$6,627 representing an increase in restricted cash.

Condensed Assets

	<u>2014</u>	<u>2013</u>	<u>Difference</u>
Utility Plant	\$ 2,942,960	\$ 2,572,540	\$ 370,420
Current Assets	234,334	243,793	(9,459)
Other Non-Current Assets	187,019	180,392	6,627
Total Net Assets	<u>\$ 3,364,313</u>	<u>\$ 2,996,725</u>	<u>\$ 367,588</u>

**WEST CARROLL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

December 31, 2014

At the end of December 31, 2014, the District had \$2,572,540 invested in capital assets (net of depreciation) including buildings, equipment, and water lines. (See table below.)

	<u>2014</u>	<u>2013</u>
Land & Land Rights	\$ 18,754	\$ 18,754
Organizational Fees	2,369	2,815
Distribution System	2,919,687	2,115,687
Machinery & Equipment	2,150	2,308
Construction in Process	<u>-</u>	<u>432,976</u>
Totals	<u>\$ 2,942,960</u>	<u>\$ 2,572,540</u>

The Countywide Underserved Project completed construction in May 2014 and included the construction of a booster station at the bottom of Kings Ridge Road, replacement of aging infrastructure, i.e. main distribution lines on Gilgal Road, and other short main line extensions to unserved customers. West Carroll's estimated cost for this project is \$899,150.

Liability amounts presented in the Statement of Net Position are presented as current (payable within one year) and non-current as of December 31, 2014. An increase in long-term debt is from the addition of notes payable to City of Carrollton/Carrollton Utilities for the Countywide Underserved Project.

Condensed Liabilities

	<u>2014</u>	<u>2013</u>	<u>Difference</u>
Noncurrent Liabilities	\$ 1,204,660	\$ 1,105,735	\$ 98,925
Current Liabilities	111,343	91,022	20,321
Total Liabilities	<u>\$ 1,316,003</u>	<u>\$ 1,196,757</u>	<u>\$ 119,246</u>

Net Position

At December 31, 2014, net position increased \$248,342 due to an increase in capital assets resulting from the completion of the Underserved Project.

	<u>2014</u>	<u>2013</u>	<u>Difference</u>
Net Investment in Capital Assets	\$ 1,692,740	\$ 1,438,780	\$ 253,960
Restricted for Debt Service	161,178	153,664	7,514
Unrestricted	194,392	207,524	(13,132)
Total Net Position	<u>\$ 2,048,310</u>	<u>\$ 1,799,968</u>	<u>\$ 248,342</u>

Income Statement

Water charges increased by \$33,229 as a result of a full year of the rate increase implemented in late 2013. An increase in capital contributions of approximately \$300,000 from the completion of the Underserved Project resulted in an overall change in net position of \$248,342.

**WEST CARROLL WATER DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2014**

Condensed Statement of Revenues and Expenses

	<u>2014</u>	<u>2013</u>	<u>Difference</u>
Operating Revenues	\$ 535,914	\$ 501,142	\$ 34,772
Operating Expenses	541,457	504,291	(37,166)
Net Operating Revenue	\$ (5,543)	\$ (3,149)	\$ (2,394)
Non-Operating Income (Expense)	(56,144)	(31,598)	(24,546)
Net Income (Loss) Before Contributions	\$ (61,687)	\$ (34,747)	\$ (26,940)
Capital Contributions	310,029	5,800	304,229
Net Income (Loss)	\$ 248,342	\$ (28,947)	\$ 277,289
Net Position Beginning of Year	1,799,968	1,828,915	(28,947)
Net Position End of Year	<u>\$ 2,048,310</u>	<u>\$ 1,799,968</u>	<u>\$ 248,342</u>

Statement of Cash Flows

Cash remained relatively unchanged over the course of 2014.

Condensed Statement of Cash Flows

	<u>2014</u>	<u>2013</u>	<u>Difference</u>
Cash from Operating Activities (Net)	\$ 75,769	\$ 83,299	\$ (7,530)
Cash from Capital & Related Financing Activities	(85,917)	(84,373)	(1,544)
Cash from Investing Activities	466	671	(205)
Change in Cash	\$ (9,682)	\$ (403)	\$ (9,279)
Cash Balance, Beginning of Year	349,975	350,378	(403)
Cash Balance, End of Year	<u>\$ 340,293</u>	<u>\$ 349,975</u>	<u>\$ (9,682)</u>

NOTES PAYABLE AND LONG-TERM DEBT

All bond payments have been paid timely. The District does not have any short term debts at this time. The district has entered into an interlocal agreement with the City of Carrollton/Carrollton Utilities for the Countywide Underserved Project. This project will be funded by a loan from Kentucky Infrastructure Authority and the balance payable at year end 2014 is \$573,220. The net change in long term debt reflects principal paid on long term bonds and the addition of new debt.

	<u>2014</u>	<u>2013</u>	<u>Difference</u>
Long Term Debt	<u>\$ 1,250,220</u>	<u>\$ 1,133,760</u>	<u>\$ 116,460</u>

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's office at 225 Sixth Street, Carrollton, KY 41008.

Vickie Edwards
Chairperson

Chastity Robbins
Director of Finance

WEST CARROLL WATER DISTRICT
STATEMENT OF NET POSITION
December 31, 2014 and 2013

	2014	2013
ASSETS		
Current Assets:		
Cash, Including Time Deposits	\$ 163,289	\$ 179,598
Accounts Receivable (Net)	59,166	52,545
Inventory	7,961	7,729
Prepaid Expense	3,918	3,921
Total Current Assets	<u>\$ 234,334</u>	<u>\$ 243,793</u>
Noncurrent Assets:		
Restricted Assets:		
Cash, Including Time Deposits	\$ 187,004	\$ 180,377
Interest Receivable	15	15
Capital Assets (Net)	2,942,960	2,572,540
Total Noncurrent Assets	<u>\$ 3,129,979</u>	<u>\$ 2,752,932</u>
Total Assets	<u>\$ 3,364,313</u>	<u>\$ 2,996,725</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 33,032	\$ 33,505
Utility Tax Payable	2,487	2,434
Sales Tax Payable	225	330
Accrued Interest - Note Payable	4,198	-
Current Portion - Note Payable	16,435	-
Current Liabilities Payable from Restricted Assets:		
Accrued Interest Payable - Long-Term Debt	14,966	16,253
Revenue Bonds Payable	40,000	38,500
Total Current Liabilities	<u>\$ 111,343</u>	<u>\$ 91,022</u>
Noncurrent Liabilities:		
Revenue Bonds Payable	\$ 637,000	\$ 677,000
Note Payable - Carrollton Utilities	556,785	418,260
Noncurrent Liabilities Payable from Restricted Assets:		
Customer Deposits Payable	10,875	10,475
Total Noncurrent Liabilities	<u>\$ 1,204,660</u>	<u>\$ 1,105,735</u>
Total Liabilities	<u>\$ 1,316,003</u>	<u>\$ 1,196,757</u>
NET POSITION		
Net Investment in Capital Assets	\$ 1,692,740	\$ 1,438,780
Restricted for Debt Service	161,178	153,664
Unrestricted	194,392	207,524
Total Net Position	<u>\$ 2,048,310</u>	<u>\$ 1,799,968</u>

WEST CARROLL WATER DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For the Years Ended December 31, 2014 and 2013

Operating Revenues:	2014	2013
Charges for Services:		
Water Charges (Net of Estimated Bad Debts)	\$ 509,592	\$ 476,363
Total Charges for Services	<u>\$ 509,592</u>	<u>\$ 476,363</u>
Other Charges and Miscellaneous:		
Service Charges	\$ 15,128	\$ 13,391
Reconnect and Disconnect Charges	10,902	8,785
Miscellaneous	292	2,603
Total Other Charges and Miscellaneous	<u>\$ 26,322</u>	<u>\$ 24,779</u>
Total Operating Revenues	<u>\$ 535,914</u>	<u>\$ 501,142</u>
Operating Expenses:		
Commissioner Fees	\$ 9,000	\$ 9,000
Contractual Service - Sampling	3,337	1,890
Insurance	8,326	7,751
Maintenance Agreement	250,161	223,743
Maintenance of Distribution System	28,553	24,281
Office Supplies and Administrative Expense	2,106	2,883
Other Interest Expense	10	-
Payroll Taxes	688	688
Professional Services	6,108	7,157
Purchased Water	128,909	129,186
Regulatory Fees	987	1,395
Telephone	910	908
Utilities - Pumping	14,075	14,967
Depreciation Expense	88,287	80,442
Total Operating Expenses	<u>\$ 541,457</u>	<u>\$ 504,291</u>
Operating Income (Loss)	<u>\$ (5,543)</u>	<u>\$ (3,149)</u>
Nonoperating Revenue (Expense):		
Investment Income	\$ 466	\$ 623
Interest Expense	(32,446)	(31,775)
Amortization Expense - Organization Costs	(446)	(446)
Loss on Abandonment of Assets	(23,718)	-
Total Nonoperating Revenues (Expense)	<u>\$ (56,144)</u>	<u>\$ (31,598)</u>
Income (Loss) Before Contributions	<u>\$ (61,687)</u>	<u>\$ (34,747)</u>
Capital Contributions	<u>310,029</u>	<u>5,800</u>
Change in Net Position	<u>\$ 248,342</u>	<u>\$ (28,947)</u>
Net Position--Beginning of Year	<u>1,799,968</u>	<u>1,828,915</u>
Net Position--End of Year	<u><u>\$ 2,048,310</u></u>	<u><u>\$ 1,799,968</u></u>

WEST CARROLL WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 529,641	\$ 503,260
Payments to Suppliers	(158,164)	(149,557)
Other Receipts (Payments)	(295,708)	(270,404)
Net Cash Provided (Used) by Operating Activities	<u>\$ 75,769</u>	<u>\$ 83,299</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Contributions	\$ 1,372	\$ 5,800
Purchases of Capital Assets	(17,935)	(21,904)
Principal Paid on Capital Debt	(38,500)	(36,000)
Interest Paid on Capital Debt	(30,854)	(32,269)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (85,917)</u>	<u>\$ (84,373)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on Investments	\$ 466	\$ 671
Net Cash Provided (Used) by Investing Activities	<u>\$ 466</u>	<u>\$ 671</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	 \$ (9,682)	 \$ (403)
 Balances-Beginning of the Year	 <u>349,975</u>	 <u>350,378</u>
 Balances-End of the Year	 <u><u>\$ 340,293</u></u>	 <u><u>\$ 349,975</u></u>

	Balances Per December 31, 2014 Statement of Net Position	Balances Per December 31, 2014 Statement of Cash Flows
Cash	\$ 163,289	\$ 163,289
Restricted Cash	177,004	177,004
Restricted Time Deposits	10,000	-
Total Cash and Cash Equivalents, End of Year	<u>\$ 350,293</u>	<u>\$ 340,293</u>

	Balances Per December 31, 2013 Statement of Net Position	Balances Per December 31, 2013 Statement of Cash Flows
Cash	\$ 179,598	\$ 179,598
Restricted Cash	170,377	170,377
Restricted Time Deposits	10,000	-
Total Cash and Cash Equivalents, End of Year	<u>\$ 359,975</u>	<u>\$ 349,975</u>

**WEST CARROLL WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (5,543)	\$ (3,149)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Cash Flows Reported in Other Categories:		
Depreciation Expense	88,287	80,442
Change in Assets and Liabilities:		
Receivables, Net	(6,621)	1,949
Inventories	(232)	2,036
Prepaid Expenses	3	(477)
Accounts and Other Payables	(473)	2,351
Accrued Expenses	(52)	147
Customer Meter Deposits Escrow Payable	400	-
Net Cash Provided by Operating Activities	<u>\$ 75,769</u>	<u>\$ 83,299</u>

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

There were no outstanding capital expenditures payable at December 31, 2014 or 2013.

Additional Non-Cash Transactions:

In 2014, increases of \$484,190 were added to the District's capital assets. The debt associated with financing these improvements is included in the financial statements as Note Payable - Carrollton Utilities. The gross amount of the debt (note payable) was reduced by 35% due to federal and state funding of debt forgiveness (\$308,657). West Carroll has included the debt reduction in capital contributions in its statement of revenues, expenses and changes in fund net position.

In 2013, purchases of capital assets of \$418,190 were added to the District's capital assets. The associated KIA-note proceeds used to finance the improvements were received by Carrollton Utilities and the construction costs were paid by Carrollton Utilities. West Carroll Water District's assets were improved, and it, West Carroll Water District, owed Carrollton Utilities for these payments and financing. On the 2013 audit report as originally presented, these amounts were included in the District's cash flow statement. They have been excluded above.

**WEST CARROLL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
December 31, 2014 and 2013**

NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

The West Carroll Water District is a rural water company serving approximately 1000 customers in Carroll, Trimble and Henry Counties, Kentucky, and is regulated by the Public Service Commission of the Commonwealth of Kentucky. The water company was formed under the laws of the above-mentioned counties through their Fiscal Courts and began operations in July, 1960.

In evaluating how to define West Carroll Water District for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic -- but not the only -- criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, the District has no component units.

A summary of the District's significant accounting policies follows:

Basis of presentation and accounting: As stated in Kentucky Revised Statutes (KRS) 278.015, "any water district shall be a public utility and shall be subject to the jurisdiction of the Public Service Commission." In KRS 278.220, it is outlined that the Public Service Commission may establish a system of accounts to be kept by the utilities subject to its jurisdiction, and may prescribe the manner in which such accounts shall be kept. The financial statements of the District are prepared in accordance with generally accepted accounting principles (GAAP). The District applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

All activities of the District are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

The accounting and financial reporting treatment applied to the District is determined by its measurement focus. The transactions of the District are accounted for on a flow of economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e., total assets plus deferred outflows, net of total liabilities and deferred inflows) is segregated into net investment in capital assets, restricted; and unrestricted components.

Revenues and expenses: Operating revenues and expenses consist of those revenues and expenses that result from the ongoing principal operations of the District. Operating revenues consist primarily of charges for services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from nonexchange transactions or ancillary activities.

The District adheres to the use restrictions established by Bond Agreements when expenses are incurred for which both restricted and unrestricted net position is available. The District has no policy defining which resources (restricted or unrestricted) to use first.

Bond Issuance Costs: Bond Issuance Costs are expensed as incurred.

Organization Costs: Organization costs are amortized over forty (40) years.

WEST CARROLL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2014 and 2013

NOTE 1 – DESCRIPTION OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment: Property and equipment purchased or constructed is stated at cost. Interest related to costs, and major improvements, renewals and replacements is capitalized as a cost of the project. Costs associated with hook-up fees are capitalized as meters, installations, and services. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. The range of estimated useful lives by type of asset is as follows:

- Distribution System	10-50 years
- Machinery & Equipment	5-20 years

Inventory: Inventories are stated at latest cost.

Income Taxes: The West Carroll Water District is not subject to income taxes.

Deferred Outflows and Deferred Inflows: Deferred Outflows and Deferred Inflows are not assets or liabilities; revenues or expenses. Rather, they represent resources of the use of resources related to future periods.

Contributed capital: Under the Governmental Accounting Standards Board's (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the District recognizes capital contributions as revenues in the statement of revenues, expenses and changes in fund net assets. Grant revenues in the form of debt forgiveness were recognized in the amount of \$308,657 at the conclusion of construction of the Countywide Underserved project in the year ended December 31, 2014. \$227,567 was recognized under the federally funded Environmental Protection Agency's Capitalization Grants for Clean Water State Revolving Funds (CFDA No. 66.458); \$50,234 from the State of Kentucky's match and \$30,856 from other Kentucky Revolving Funds. No grant funds were received in the year ended December 31, 2013. Tap-on fees of \$1,372 and \$5,800 were received by the District for the years ended December 31, 2014 and 2013.

Net position: Net position comprises the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: net investment in capital assets; restricted; and unrestricted net position. Net investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted net position consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted net position consists of all other net position not included in the above categories.

Estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Statement of Cash Flows: For the purpose of the Statement of Cash Flows, West Carroll Water District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

NOTE 2 – DEBT RESTRICTIONS AND COVENANTS

The Bond and Interest Sinking Account was established with the original RECD bond issue, and is to be continued to be maintained as long as any of the 1975, 1981, 1994 or 2005 issues are outstanding. Under the bond resolution which established this account, it was provided that a minimum balance be maintained in this account as security to the bondholders. In order to attain the minimum balance, a monthly transfer must be made as follows:

$$\begin{array}{rcl} & + & \text{one sixth (1/6) of the next semiannual interest payment} \\ & + & \text{one twelfth (1/12) of next annual principal payment} \\ = & & \text{monthly transfer} \end{array}$$

**WEST CARROLL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2014 and 2013**

NOTE 2 – DEBT RESTRICTIONS AND COVENANTS (Continued)

Transfers sufficient to meet the total obligation outstanding on all issues were made timely during the years ended December 31, 2014 and 2013.

Under the bond resolution of the original 1975 bonds, a Depreciation Account was to be established to provide funds for extraordinary repairs and extensions to the system, and to make up any deficiency in the Bond and Interest Sinking Fund Account. Under the provisions of the 2005 Bond Resolution, it was determined that the monthly transfer required to be made to the Depreciation Account would be a minimum of \$435 each month until a balance of \$73,200 (increased from \$52,200) is accumulated. When the required balance of \$73,200 is attained, the monthly transfers may be discontinued, but are subject to resumption if the depreciation account is depleted below the required balance. The Depreciation Account is to be maintained as long as any of the bonds are outstanding.

Although the depreciation account was fully funded, funds continued to be transferred monthly as required above during the years ended December 31, 2014 and 2013.

NOTE 3 – CASH AND INVESTMENTS

KRS 66.480 authorizes the District to invest in obligations of the United States and its agencies and instrumentalities including repurchase agreements, through sources including national and state banks chartered in Kentucky, obligations and contracts for future delivery backed by the full faith of the United States or its Agency, certificates of deposit and interest bearing accounts in institutions insured by the Federal Depository Insurance Corporation and other investments described therein provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds. The District may also invest in mutual funds meeting the requirements of the statute.

Custodial Credit Risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of December 31, 2014 and 2013, in accordance with the District's policy, \$347,594 and \$360,831 respectively, of the District's deposits were covered by federal depository insurance. Thus the District had no deposits that were exposed to custodial credit risk.

At December 31, 2014 and 2013, the District's deposits were as follows:

December 31, 2014

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Total Carrying Value</u>
Demand Deposits	\$ 103,571	\$ 106,220
Time/Savings Deposits	244,023	244,023
Total Deposits	<u>\$ 347,594</u>	<u>\$ 350,243</u>

December 31, 2013

<u>Type of Deposits</u>	<u>Total Bank Balance</u>	<u>Total Carrying Value</u>
Demand Deposits	\$ 59,257	\$ 59,660
Time/Savings Deposits	301,574	300,265
Total Deposits	<u>\$ 360,831</u>	<u>\$ 359,925</u>

WEST CARROLL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2014 and 2013

NOTE 3 – CASH AND INVESTMENTS (Continued)

Reconciliation to Statement of Net Position:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Unrestricted Cash, Including Time Deposits	\$ 163,289	\$ 179,598
Restricted Cash, Including Time Deposits	187,004	180,377
Less Cash on Hand	(50)	(50)
	<u>\$ 350,243</u>	<u>\$ 359,925</u>

NOTE 4 – RESTRICTED ASSETS

Restricted cash and investments consist of the following:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Bond and Interest Sinking Account	\$ 58,027	\$ 57,178
Depreciation Account	118,102	112,724
Customer Deposits	<u>10,875</u>	<u>10,475</u>
Total	<u>\$ 187,004</u>	<u>\$ 180,377</u>

Restricted receivables consist of the following:

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Interest Receivable	\$ 15	\$ 15
Total	<u>\$ 15</u>	<u>\$ 15</u>

NOTE 5 – CUSTOMER ACCOUNTS RECEIVABLE

Customer Accounts Receivable has been netted with an Allowance for Bad Debts of \$11,552 and \$7,986 at December 31, 2014 and 2013, respectively. The amount provided for bad debts represents the portion of the total amounts for which collection is unlikely, based on historical collection data.

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2014 and 2013, was as follows:

	<u>Balance at January 1, 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at December 31, 2014</u>
Land & Land Rights	\$ 18,754	\$ -	\$ -	\$ 18,754
Organizational Fees	17,854	-	-	17,854
Distribution System	4,440,225	915,847	(55,158)	5,300,914
Machinery & Equipment	12,482	-	-	12,482
Construction in Process	432,976	466,174	(899,150)	-
Totals at Historical Cost	<u>\$ 4,922,291</u>	<u>\$ 1,382,021</u>	<u>\$ (954,308)</u>	<u>\$ 5,350,004</u>
Less: Accumulated Depreciation				
Organizational Fees	\$ (15,039)	\$ (446)	\$ -	\$ (15,485)
Distribution System	(2,324,538)	(88,129)	31,440	(2,381,227)
Machinery & Equipment	(10,174)	(158)	-	(10,332)
Total Accumulated Depreciation	<u>\$ (2,349,751)</u>	<u>\$ (88,733)</u>	<u>\$ 31,440</u>	<u>\$ (2,407,044)</u>
Capital Assets, Net	<u>\$ 2,572,540</u>	<u>\$ 1,293,288</u>	<u>\$ (922,868)</u>	<u>\$ 2,942,960</u>

WEST CARROLL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2014 and 2013

NOTE 6 – CAPITAL ASSETS (Continued)

	Balance at January 1, 2013	Additions	Disposals	Balance at December 31, 2013
Land & Land Rights	\$ 18,754	\$ -	\$ -	\$ 18,754
Organizational Fees	17,854	-	-	17,854
Distribution System	4,433,036	7,189	-	4,440,225
Machinery & Equipment	12,482	-	-	12,482
Construction in Process	-	432,976	-	432,976
Totals at Historical Cost	<u>\$ 4,482,126</u>	<u>\$ 440,165</u>	<u>\$ -</u>	<u>\$ 4,922,291</u>
Less: Accumulated Depreciation				
Organizational Fees	\$ (14,593)	\$ (446)	\$ -	\$ (15,039)
Distribution System	(2,244,443)	(80,095)	-	(2,324,538)
Machinery & Equipment	(9,827)	(347)	-	(10,174)
Total Accumulated Depreciation	<u>\$ (2,268,863)</u>	<u>\$ (80,888)</u>	<u>\$ -</u>	<u>\$ (2,349,751)</u>
Capital Assets, Net	<u>\$ 2,213,263</u>	<u>\$ 359,277</u>	<u>\$ -</u>	<u>\$ 2,572,540</u>

Included under the District's Plant Assets were \$120,860 and \$112,008 of fully depreciated assets, at December 31, 2014 and 2013, respectively. Land and land rights and construction in process are capital assets not being depreciated.

Amortization expense on organizational fees and depreciation expense aggregated \$88,733 and \$80,888 in 2014 and 2013, respectively.

NOTE 7 – CUSTOMER DEPOSITS/ESCROW

Customer deposits are collected upon installation of water service. This amount is to be refunded to the customer upon discontinuation of service (after the customer's bill has been paid in full). Records were maintained which detailed the accrued interest on each customer's deposit based on a one-quarter (.25) of a percent annual rate for the years ended December 31, 2014 and 2013. Accrued interest is paid when the deposit is refunded or credited to the customer's account annually. At December 31, 2014 and 2013, no interest was accrued on customer deposits.

NOTE 8 – LONG-TERM DEBT

As of December 31, 2014 and 2013, the long-term debt payable consisted of the following:

Bonds Payable:

	December 31, 2014	December 31, 2013
RECD Revenue Bonds of 1975 Series A, original issue amount of \$343,000, secured by water revenues. Interest is charged at the rate of 5.0% per annum. Final maturity is January 1, 2015.	\$ 21,000	\$ 41,000
RECD Revenue Bonds of 1981 Series B, original issue amount of \$114,000, secured by water revenues. Interest is charged at the rate of 5.0% per annum. Final maturity is January 1, 2021.	39,500	44,000
RECD Revenue Bonds of 1994, original issue amount of \$395,000, secured by water revenues. Interest is charged at the rate of 4.5% per annum. Final maturity is January 1, 2033.	282,500	291,500

WEST CARROLL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2014 and 2013

Note 8 – LONG-TERM DEBT (Continued)

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
RECD Revenue Bonds of 2005, original issue amount of \$369,000, secured by water revenues. Interest is charged at the rate of 4.25% per annum. Final maturity is January 1, 2044.	334,000	339,000
Total Bonds Payable	\$ 677,000	\$ 715,500
Current Portion	\$ 40,000	\$ 38,500
Noncurrent Portion	637,000	677,000
Total Bonds Payable	\$ 677,000	\$ 715,500

Note Payable:

The West Carroll Water District has entered into an interlocal agreement under which it is the subrecipient of loan proceeds from the Kentucky Infrastructure Authority funding the Countywide Underserved Project. The City of Carrollton f/b/o Carrollton Utilities is the recipient of the loan proceeds. It is also the entity overseeing the engineering and construction contracts, and other general costs associated with the project. West Carroll Water District, under the interlocal agreement, has agreed to pay Carrollton Utilities for the portion of the debt associated with improvements made to its distribution system. At December 31, 2014, West Carroll Water District's portion of the construction project was complete.

The note had not been closed at December 31, 2014. The gross portion of the loan attributable to West Carroll Water District's line improvements is \$881,877. The loan contains a principal forgiveness clause in the amount of thirty-five percent (35%). After recognition of the principal forgiveness (grant income) in the amount of \$308,657, the remaining loan balance is \$573,220. An estimated amortization schedule has been prepared to amortize the loan. Interest is charged at one percent (1%). In addition a loan servicing fee of .25 percent of the annual outstanding loan balance will be payable to the Authority as a part of each interest payment.

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the years ended December 31, 2014 and 2013.

December 31, 2014

	<u>Balance at January 1, 2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at December 31, 2014</u>	<u>Current Portion</u>
Note Payable	\$ 418,260	\$ 463,617	\$ (308,657) *	\$ 573,220	\$ 16,435
Bonds Payable	715,500	-	(38,500)	677,000	40,000
	<u>\$ 1,133,760</u>	<u>\$ 463,617</u>	<u>\$ (347,157)</u>	<u>\$ 1,250,220</u>	<u>\$ 56,435</u>

*Represents loan forgiveness (grant)

December 31, 2013

	<u>Balance at January 1, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at December 31, 2013</u>	<u>Current Portion</u>
Note Payable	\$ -	\$ 418,260	\$ -	\$ 418,260	\$ -
Bonds Payable	751,500	-	(36,000)	715,500	38,500
	<u>\$ 751,500</u>	<u>\$ 418,260</u>	<u>\$ (36,000)</u>	<u>\$ 1,133,760</u>	<u>\$ 38,500</u>

WEST CARROLL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2014 and 2013

NOTE 8 – LONG-TERM DEBT (Continued)

The annual requirements for all bonds payable outstanding at December 31, 2014 are as follows:

	Note Payable			Bonds Payable		Total
	Principal	Interest	Service Fee	Principal	Interest	
2015	\$ 16,435	\$ 5,209	\$ 1,304	\$ 40,000	\$ 28,015	\$ 90,963
2016	16,039	5,522	1,388	21,000	27,060	71,009
2017	16,239	5,354	1,355	21,500	26,080	70,528
2018	16,443	5,186	1,319	22,500	25,055	70,503
2019	16,650	5,016	1,283	23,000	24,005	69,954
2020-2024	86,432	22,471	5,839	115,500	104,019	334,261
2025-2029	91,989	17,958	4,796	129,500	77,646	321,889
2030-2034	97,902	13,214	3,626	141,000	45,536	301,278
2031-2039	104,196	8,227	2,319	73,000	25,628	213,370
2040-2044	110,895	2,986	862	90,000	7,906	212,649
	<u>\$ 573,220</u>	<u>\$ 91,143</u>	<u>\$ 24,091</u>	<u>\$ 677,000</u>	<u>\$ 390,950</u>	<u>\$ 1,756,404</u>

At December 31, 2013, the note payable had not been closed and an amortization schedule had not been prepared. Therefore, this schedule reflects bonds outstanding only. The annual requirements for all bonds payable outstanding at December 31, 2013 are as follows:

Principal Due January 1	Principal	Interest	Total
2014	\$ 38,500	\$ 29,933	\$ 68,433
2015	40,000	28,015	68,015
2016	21,000	27,060	48,060
2017	21,500	26,080	47,580
2018	22,500	25,055	47,555
2019-2023	116,000	109,185	225,185
2024-2028	123,500	83,358	206,858
2029-2033	156,500	51,733	208,233
2034-2038	70,000	28,730	98,730
2039-2043	87,000	11,730	98,730
2044	19,000	-	19,000
	<u>\$ 715,500</u>	<u>\$ 420,879</u>	<u>\$ 1,136,379</u>

NOTE 9 – INTEREST EXPENSE

Interest expense incurred for the years ended December 31, 2014 and 2013 was \$33,775 and \$32,141, respectively. Interest of \$1,319 and \$366 was capitalized in 2014 and 2013.

NOTE 10 – FUND EQUITY-RESTRICTED NET POSITION

	December 31, 2014	December 31, 2013
Restricted for Debt Service:		
RECD Revenue Bonds of 1975, 1981, 1994, and 2005		
Cash	\$ 176,129	\$ 169,902
Add: Accrued Interest Receivable	15	15
Less: Accrued Interest Payable	(14,966)	(16,253)
Total Restricted for Debt Service	<u>\$ 161,178</u>	<u>\$ 153,664</u>

**WEST CARROLL WATER DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
December 31, 2014 and 2013**

NOTE 11 – BAD DEBT EXPENSE

Water revenue charges have been netted with an estimated bad debt expense of \$3,387 and \$4,453 at December 31, 2014 and 2013, respectively.

NOTE 12 – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risks is covered through the contributions, premiums and assessments to the Kentucky Association of All Lines Fund (KALF).

NOTE 13 – ECONOMIC DEPENDENCY

The Water District purchases 100% of the water it sells from the following entities: Carrollton Utilities, the Henry County Water District, the Trimble County Water District, and the City of Milton Water and Sewer Utility.

NOTE 14 – OPERATION AND MAINTENANCE CONTRACT

Effective April 1, 1998, the District entered into an agreement with Carrollton Utilities under which Carrollton Utilities agreed to provide the operation and maintenance of the District's facilities, customer billing services, accounting functions, and related services. Effective July 1, 2014 and 2013, the annual fee for these services was \$250,503 and \$250,503, respectively.

NOTE 15 – CONTINGENCIES

The District and Carrollton Utilities was approved for financing through the Kentucky Infrastructure Authority for a county wide improvement project identified as the Countywide Underserved Project. The City of Carrollton f/b/o Carrollton Utilities is the recipient of the loan proceeds. It is also the entity overseeing the engineering and construction contracts, and other general costs associated with the project. Under the project, West Carroll Water District constructed a booster station at the bottom of Kings Ridge Road and replaced distribution lines on Gilgal Road along with other improvements. The total cost of the project shall not exceed \$1,850,270. West Carroll Water District agreed to pay Carrollton Utilities for the portion of the debt associated with improvements made to its distribution system. West Carroll Water District's share of the project including engineering fees was \$881,877. Construction was completed during the year.

The loan funds are considered to be federal funds under CFDA 66.458, Capitalization Grants for Clean Water State Revolving Funds.

The District has entered into an interlocal agreement with Carrollton Utilities to participate in the *Interconnect Project* to improve each utility's ability to continue service in an emergency. The project will be financed through the Kentucky Infrastructure Authority with 25% debt forgiveness. West Carroll Water District's share of the project is estimated at \$76,302. Heritage Engineering has been awarded the engineering contract on the project.

The District has entered into an interlocal agreement with Carrollton Utilities to participate in the *Focus on Core Mission and Infrastructure Project*. Under the project a new master meter and valve vault connecting West Carroll with the Henry County Water District will be installed, as will a new pressure reducing valve to help with high water loss. The District's share of this project is estimated at \$38,760. The project will be financed through the Kentucky Infrastructure Authority with 50% debt forgiveness.

RAISOR, ZAPP & WOODS, PSC

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Commissioners of the
West Carroll Water District
Carrollton, KY 41008

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of West Carroll Water District as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise West Carroll Water District's basic financial statements and have issued our report thereon dated March 27, 2015.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered West Carroll Water District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of West Carroll Water District's internal control. Accordingly, we do not express an opinion on the effectiveness of West Carroll Water District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency (Item 2014-001).

COMPLIANCE AND OTHER MATTERS

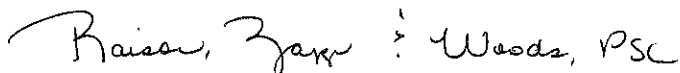
As part of obtaining reasonable assurance about whether West Carroll Water District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

WEST CARROLL WATER DISTRICT'S RESPONSE TO FINDINGS

West Carroll Water District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. West Carroll Water District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



RAISOR, ZAPP, & WOODS P.S.C
Certified Public Accountants
Carrollton, Kentucky

March 27, 2015

**WEST CARROLL WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2014**

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of the West Carroll Water District.
2. One deficiency in internal control related to the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. Item 2014-001 is reported as a significant deficiency.
3. No instances of noncompliance material to the financial statements of West Carroll Water District, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

GOVERNMENT AUDITING STANDARDS

DEFICIENCIES IN INTERNAL CONTROL

2014-001 FAILURE TO PREPARE COMPLETE SET OF FINANCIAL STATEMENTS INCLUDING REQUIRED NOTE DISCLOSURES

CONDITION:

District financial statements, including the required disclosures, are prepared as part of the annual audit. This condition was cited as a material weakness in the schedule of findings and responses for the year ended December 31, 2013 as Item 13-1.

CRITERIA:

Internal controls should be in place to provide management with reasonable, but not absolute, assurance that financial statements and required notes are prepared in accordance with generally accepted accounting principles.

CAUSE:

The draft financial statements and disclosures are prepared during the audit process.

EFFECT:

Management engaged the auditor to prepare the draft of the financial statements, including the related notes to the financial statements. Management reviewed, approved, and accepted responsibility for the financial statements prior to their issuance.

RECOMMENDATION:

District management should continue to enhance its knowledge of reporting requirements in providing oversight of this service.

RESPONSE:

The outsourcing of this service is a result of management's cost benefit decision to avoid incurring internal resource costs. We concur with the recommendation and will continue to improve our overall accounting knowledge in performing our oversight responsibilities. We are aware of our responsibilities for the financial statements. We have reviewed and accepted the financial statements as presented.

**WEST CARROLL WATER DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES (Continued)
For the Year Ended December 31, 2014**

B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)

GOVERNMENT AUDITING STANDARDS (CONTINUED)

COMPLIANCE AND OTHER MATTERS

NONE